

Florida Hurricane Catastrophe Fund
Addendum to the 2009 Ratemaking Formula Report
to the State Board of Administration of Florida
May 27, 2009

During its 2009 session, the Florida Legislature passed CS/CS/CS/HB 1495. This bill made changes to 215.555, Florida Statutes, which, upon becoming law, will affect Florida Hurricane Catastrophe Fund (FHCF) coverage and reimbursement premium calculations for the 2009/2010 FHCF Contract Year. The purpose of this Addendum to the 2009 FHCF Ratemaking Formula Report is to bring premium and coverage calculations into accordance with changes made by this bill.

The necessary changes are as follows:

- The imposition of a 5% cash build up factor on the premium for mandatory coverage;
- The requirement that premium for the Temporary Increase in Coverage Limit (TICL) be doubled;
- The elimination of the \$11 billion and \$12 billion layers of TICL coverage.

There are 4 changes we propose to the Report.

1. Rates used to calculate the FHCF premium for the mandatory layer of coverage.

To be in accordance with the new legislation, all the rates approved by the Trustees for the State Board of Administration at their meeting on April 14, 2009 should be multiplied by a factor of 1.05. Note that the rates previously approved by the Trustees are rates that did not include any expense for financial liquidity products.

2. Multiples used to calculate FHCF coverage

With these new FHCF reimbursement premiums, the new coverage multiples for the mandatory FHCF layer are as follows:

Retention multiple (90% coverage)	6.6782
Retention multiple (75% coverage)	8.0138
Retention multiple (45% coverage)	13.3564
Payout multiple	15.8978

3. Factors used to calculate premium for TICL

New factors have been produced to calculate premium for the different TICL layer options. Multiplying the FHCF premium for the mandatory layer of coverage – as modified in the first change described in this Addendum – by these factors produces the total premium due from a participating insurer for both the FHCF and TICL.

These factors are included in Exhibit I of this Addendum. See column (11).

4. Factors used to calculate coverage for the TICL options

New factors have been produced to calculate coverage for the different TICL layer options. Multiplying the FHCF premium for the mandatory layer of coverage – as modified in the first change described in this Addendum – by the FHCF+TICL payout multiple for the selected TICL option

produces the total limit of coverage being provided to the participating insurer for both the FHCF and TICL layers.

These factors are also included in Exhibit I of this Addendum. See column (10).

We estimate that with this Addendum, the revised ratemaking formula (with no loading for financial liquidity products) will produce \$1.080 billion in total mandatory FHCF premium compared to \$992 million in mandatory FHCF premium for contract year 2008-2009. The increase in overall mandatory premium of 8.86% is based on projected growth in exposure of 2.81% and overall rate increase of 5.89%. The rate increase is largely due to the 5% cash build up factor. The rate change without the cash build up factor would have been 0.84%. Rate changes by type of business including the 5% cash build up factor can be found in the table below.

Type of Business	Rate Change
Residential	7.97%
Tenants	-5.40%
Condominiums	4.89%
Mobile Home	15.50%
Commercial Habitational	-5.41%
Total	5.89%

